



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: November 8, 2000

REPORT NO. 00-234

ATTENTION: Honorable Mayor & City Council
Agenda of November 14, 2000

SUBJECT: Lease Agreement - Dana Inn and Marina

SUMMARY

Issues - Should the City Manager be authorized to enter into a new lease agreement with Bartell Hotels dba Dana Inn and Marina?

Manager's Recommendation - Approve the new lease agreement.

Other Recommendations - On October 3, 2000, the Mission Bay Park Committee voted (7-3) to recommend that the Park and Recreation Board recommend approval of the project.

On October 11, 2000, the Design Review Committee voted (8-0-1) to recommend that the Park and Recreation Board recommend approval of the project.

On October 19, 2000, the Park and Recreation Board recommended approval of the project unanimously (10-0-0).

Fiscal Impact - Completion of the project is expected to increase the business performance of the Dana Inn which will result in a significant increase in revenue for the City. Additional revenue increases will result from scheduled increases in the percentage rent categories for rooms, food and beverages along with a commensurate increase in the transient occupancy tax. During the course of construction for Phase I of the Development Plan, the Lessee will pay percentage rent only for a period not to exceed eight (8) months which is estimated to reduce the rent paid during that time by approximately \$5,000.

BACKGROUND

The original lease for the Dana Inn and Marina in Mission Bay Park commenced in June 1968. Bartell Hotels acquired its interest in the property in December 1986. Improvements on the property were completed in 1968 and currently consist of 196 guestrooms, a 4,000 square foot coffee shop and a 141 boat slip marina located on 7.97 acres of land and 2.43 acres of water area. The current lease expires in June 2018. An expansion of 2.5 acres adjacent to the west of the existing leasehold is identified in the Mission Bay Park Master Plan Update.

DISCUSSION

Bartell Hotels recently received recommendations for approval from the Mission Bay Park Committee, Design Review Committee, and the Park and Recreation Board for an \$11 million renovation of the existing hotel and restaurant and an expansion of 80 rooms on 2.5 acres of adjacent land. Phase I of the project consists of the renovation of the existing 32-year old facility including architectural modifications to all buildings, complete hard and soft goods renovation of all guest rooms, and a complete renovation of the existing 4,000 square foot coffee shop. Phase II will consist of a 2.5 acre expansion of the existing leasehold along with the construction of 80 guest rooms, a 5,000 square foot lobby including a gift shop and lounge, and a 6,000 square foot meeting room. The existing lobby will be relocated to the new site and create a “grand entrance” providing improved access and circulation. The design will reflect a contemporary Mediterranean style and will be further enhanced with a circular driveway. This project is consistent with the Mission Bay Park Master Plan.

A new lease has been negotiated with a 50-year term in order to finance improvements. The City received \$467,387 rent in FY 1999 and \$485,651 rent in FY 2000. Upon completion of the Phase I renovation, it is estimated that the rent will increase to \$922,940 and transient occupancy tax will increase proportionally.

The terms of the proposed lease are as follows:

- Term - Fifty years.
- Rent - The lessee will pay the greater of:
 1. An annual minimum rent of \$361,806.27, subject to adjustment every three years; versus,
 2. Various percentages of lessee's gross income, subject to scheduled adjustments for the categories listed below during the first twenty years of the term; or, adjustments based on appraised fair market rents every ten years. (Market Adjustment = Market Adj.)

	<u>Existing Lease</u>	<u>Proposed Lease</u>
Room Charge	7%	7% (years 1-10) 7.5% (years 11-15) 7.75% (years 16-20) Market Adj. (after year 20)
Food	3%	3% (years 1-10) 5% (years 11-20) Market Adj. (after year 20)
Alcoholic Beverages	5%	6% (years 1-10) 6.5% (years 11-20) Market Adj. (after year 20)

- Insurance - \$5 million public liability insurance.
- Additional Consideration - The City will receive 1% of the gross proceeds from the sale or encumbrance of the leasehold interest.
- Water Quality Best Management Practices (BMP's) - Lessee must prepare and adhere to BMP's to provide increased water quality protection. The BMP's are subject to annual review by the City.
- Acreage - Leased land acreage will increase 2.5 acres for a total of 10.47 acres. Leased water acreage remains at 2.43 acres.

The City Manager recommends that the new lease be approved since the renovation and expansion is consistent with the Mission Bay Park Master Plan, it will tremendously beautify and improve the facilities, and will provide increased revenue to the City.

ALTERNATIVE

Do not authorize the City Manager to enter into a new lease. This is not recommended since the City will not benefit from increased revenue, improved services, new facilities and the best management practices.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: George I. Loveland
Assistant City Manager